

Competitive Pressures and Workforce Adaptability

Dennis P. Lockhart
President and Chief Executive Officer
Federal Reserve Bank of Atlanta

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Thank you, Gov. Barbour, for inviting my colleagues and me to participate in the Southern Governors Association's 73rd annual meeting.

Two years ago this week, Hurricane Katrina struck the Gulf Coast. During the tough days and weeks after this natural disaster, the Atlanta Fed continued to provide financial services—ensuring that banks and their customers in this area had access to funds. Since that time, we've stayed engaged with the region's recovery. I must say the people in Biloxi have done a tremendous job in bouncing back. While there's still a lot more work to be done, this region's ongoing recovery serves as a reminder of the resilience of the broader American economy.

During my prepared remarks this afternoon, I will briefly describe our Reserve Bank's regional approach to gathering economic information. I'll also provide a high-level snapshot of the Sixth Federal Reserve District's economy. As Gov. Barbour said, the Sixth District includes Florida, Georgia, and Alabama and parts of Tennessee, Louisiana, and Mississippi. I'll refer to this entire region as the Southeast. I'll then describe some of the competitive pressures affecting our region along with some implications for state policymakers.

Southeastern economic perspective

The economic diversity of the Southeast provides a unique window on the U.S. economy as a whole. Economic data and anecdotes collected at the state and local levels are vital to informing the Atlanta Fed's monetary policy process at the national level.

The Atlanta Fed has on staff some 22 Ph.D. economists. They conduct basic research, analyze data from various industries, and use economic models to gain insights. Our teams look at the macroeconomy, financial markets, the regional economy, and international issues.

Unfortunately, most official statistics we collect are retrospective, telling us about what has happened already. For this reason, our regional team also gathers real-time, qualitative information through a grassroots network of contacts across the Southeast. By blending quantitative data with anecdotal reports, we try to grasp current broad economic trends. In our analysis we are always looking for changing dynamics with the main objective of achieving the best outcome for the nation as a whole over the long term.

Some of our economic research is relevant to concerns at the state level. In a few moments, I will touch on one aspect of this body of research from the Atlanta Fed.

First, some background: The Atlanta Fed's region is large, both geographically and economically. The population of the six states served by our Reserve Bank is about 45 million, and the region's economic output is around \$1.7 trillion. By comparison, the gross domestic product of the nation is about \$13 trillion. If the Sixth District were a nation, its economy would rank eighth in the world, between Italy and Canada.

In many ways, the Sixth District is also a microcosm of the nation overall. Looking at the industry compositions of all 12 Fed districts, our analysis shows that the Atlanta Fed most closely mirrors the nation as a whole.

The Southeast's economy is diverse and shares many of the same strengths and weaknesses as the United States. Pockets of the region are lagging because of job losses in manufacturing industries such as textiles, apparel, and furniture making. In these industries, the search for lower labor costs has led to offshoring production. As you know, this story of manufacturing job loss is familiar across the country.

Fortunately, some of these weaknesses are being offset by growth in higher-wage manufacturing activities. For instance, a highly efficient vehicle assembly and parts manufacturing industry has taken root in our region. In the Sixth District last year there were 119,000 jobs in this industry—a 13 percent increase since 2001. By contrast, auto employment nationally declined over the same period. Because of the presence of newer, efficient facilities, the Southeast has emerged as an important center of motor vehicle and parts manufacturing. New opportunities have emerged in other fields. The Southeast has experienced widespread growth in service industries. For instance, hiring has been strong in health care, education, tourism, and some other professions.

Along with this economic vitality, the population of the Sixth District has increased. But this growth has not been uniform. Florida and Georgia have both experienced double-digit population growth since 2001. Louisiana and Mississippi have grown more slowly. There are many factors behind these differences, including the impact of devastating hurricanes in 2005.

Migration from other parts of the United States into the Southeast has propelled much of the growth of jobs in the service sector. But another driver is foreign direct investment. The Southeast's proximity to other national markets is one advantage in the competitive race to attract industry and capital from around the world. In fact, almost 700,000 jobs in the Southeast are at nonbank, foreign-owned businesses.

But attracting investment—foreign or domestic—depends crucially on having a workforce with the right blend of skills. For the remainder of my talk I would like to examine some of the issues shaping the demand for workers.

Workforce under pressure

Today's workforce is being transformed by at least two major forces: globalization and technology.

As I mentioned a moment ago, many jobs have disappeared from the region because they could be done more cheaply overseas. Also, because of technology, there is less and less need for clerks, typists, or computer operators. Pressure on these types of middle-income jobs has added to workforce anxiety—something frequently voiced in public discourse.

The Southeast has done well in building on historic strengths and developing promising new industries, for instance, biotechnology and medical research, high-end manufacturing, accounting and management services, and computer and network engineering. These are the types of jobs where technology tends to complement performance—adding value instead of acting as a labor substitute.

As you know, states compete to attract more jobs in these high-paying industries. And I believe states should continue to encourage development of knowledge workers who are best positioned to thrive in today's changing economy.

Let me drill deeper into this thought by summarizing an Atlanta Fed study of labor market outcomes. For this study, staff on our regional economics team took a close look at employment data from the Georgia Department of Labor. Their findings should be of interest to leaders in all states.

In their research, our staff examined workers employed at businesses providing information technology services during the IT boom of the 1990s. The bulk of these workers came from other parts of the country to work in Georgia. During the IT bust of 2001 and 2002, many of them lost their jobs.

But the vast majority of those IT workers stayed in Georgia and regained employment relatively quickly. Why? In large part I believe it was because these workers had skills that were transferable to other local industries.

Even though many IT firms downsized or folded, businesses that use IT on a day-to-day basis still needed workers with IT skills. For instance, the Federal Reserve Bank of Atlanta employs many IT staff even though our main business is not providing technology services.

Contrast this with the line workers in manufacturing or construction. These individuals tend to have skills that are specific to the industry in which they work. For instance, when an apparel plant closes, the total demand for sewing machine operators also declines. The absence of alternative uses for their skills means that these workers are more likely to experience extended spells of joblessness or be forced to relocate.

Implications for regional policymakers

What are the lessons from this research for us here today? For one thing, this research suggests that workers with skills that are transferable across industries are personally more resilient. In other words, they are better prepared for industry-specific shocks than workers who rely on industry-specific skills.

It may be more accurate to think of transferable skills as transferable aptitudes—aptitudes for learning new specific skills. Much of the literature on transferable skills cites very general areas such as communications skills, organization and planning skills, and interpersonal skills.

The first concern of job-creating businesses is availability and aptitude. Businesses want a potential pool of employees that can learn job-specific skills at the global standards of, one, fast and, two, perfect (or zero defects).

A "foundation aptitude," so to speak, is the ability to learn. For many in our workforce this aptitude is best fostered by solid K-12 programs supplemented by institutions of adult education and retooling. These institutions include technical and vocational schools and community colleges.

In the diverse Southeast economy—with the pressure of globalization and technological change—the required skill set will change constantly. We hear often that a person who will spend 40 years in the labor force may have not only multiple jobs but also three or four distinct careers. For many, personal retooling is not just a choice—it's a matter of survival.

Fortunately, state leaders are well positioned to ease this sometimes painful process by investing in programs to foster worker retooling. How can states encourage development of workers with high aptitude and, therefore, help provide a highly adaptable workforce?

In my view, those involved in promoting economic development at the state level should apply policies aimed at achieving a resilient workforce characterized by well-developed vocational aptitudes built on foundation skills, especially a capacity to learn new things throughout a career.

I believe states are on the right track when they invest in programs that stress "foundation skills" such as applied mathematics and reading comprehension.

Certainly, these issues of workforce resilience are top of mind as we confront the challenges of a rapidly changing economy. I began my remarks with a positive picture of a Southeastern economy that is representative of the nation as a whole. The region and the nation are highly engaged with the world economy. I believe this global integration on balance has been positive and is likely to intensify in the future. As competitive pressures mount, the Southeast should continue to thrive as long as workers adapt to an economy that places a premium value on education and knowledge.

Contact: [Jean Tate](#) 404-498-8035

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